

# FDIC State Profile

WINTER 2003

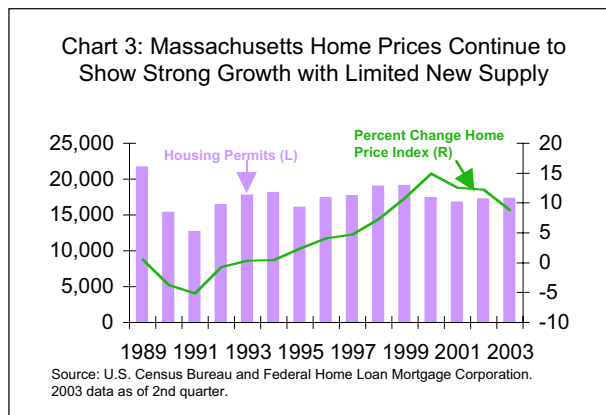
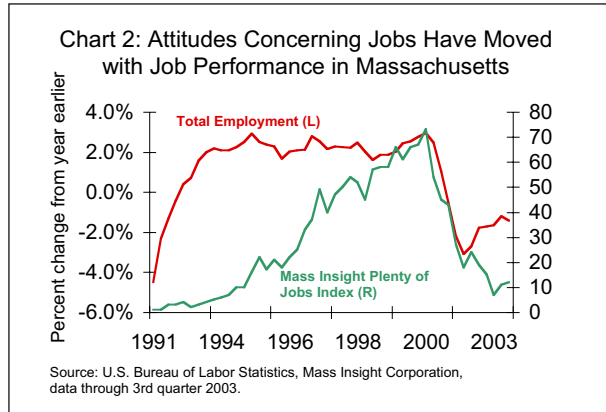
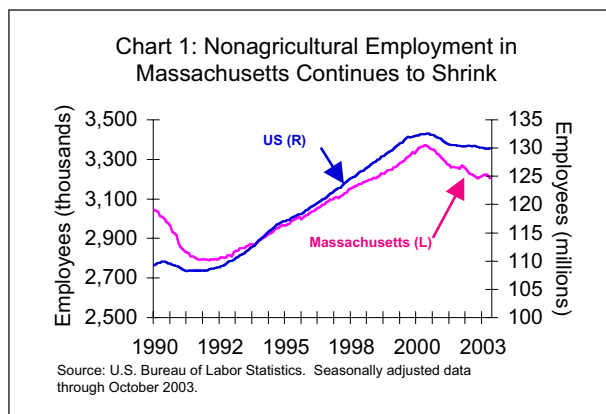
## Massachusetts

Massachusetts' employment levels continue to suffer from the 2001 recession .

- Massachusetts suffered a larger percentage decline in employment from the 2001 recession than any state in New England or the country. Jobs declined by 180,300 from January 2001 through October 2003, a loss of 5.3 percent, nearly three times the national average.
- Even so, the severity of this contraction pales when compared to the experience during the prior recession. At that time, Massachusetts also was buffeted by the largest employment decline in the nation. The loss, though, was much larger, amounting to 363,800 jobs from January 1989 to January 1992, or 11.6 percent (see Chart 1).
- Now, as then, much of the decline occurred in high technology manufacturing. During the 1989-1992 downturn, almost one-third of high-tech manufacturing jobs disappeared, while nonmanufacturing high-tech employment reached a plateau before growth resumed. In this recession, using available data from January 2001 through December 2002, high-tech manufacturing employment fell by about 20,000 or 12.5 percent. Nonmanufacturing high-tech employment dropped even further, by approximately 28,000, or just under 15 percent.
- Attitudes of Massachusetts' citizenry have varied with changing economic conditions. In a telephone survey undertaken by Mass Insight, an organization specializing in public affairs issues, only 1 percent found labor market conditions in the Commonwealth favorable in late 1991. Nine years later in 2000, 73 percent found conditions to be favorable, while the latest reading of October 2003 places the figure at 10 percent (see Chart 2).

### Housing remains a bright spot for consumers.

- Massachusetts benefited along with other New England states from strong appreciation in house prices. Over the year ended in the second quarter of 2003, houses financed with conventional mortgages rose in price by 8.8 percent, following increases of over 12 percent in each of the prior two years. New housing construction in Massachusetts, however, has not responded significantly to the rapidly rising prices (see Chart 3).



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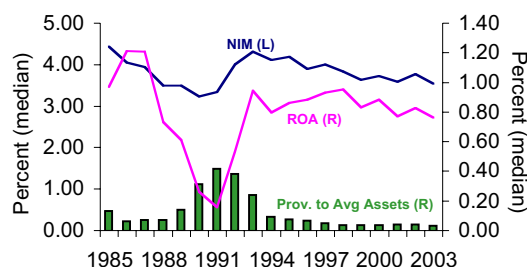
### Massachusetts' banks and thrifts continued to be profitable, despite some pressure on net interest margins.

- Massachusetts' commercial banks reported a median return on assets (ROA) of 0.92 percent as of the second quarter 2003, down slightly from 0.97 percent in the second quarter 2002. Profitability was undermined by declining levels of net interest income and noninterest income and increasing expenses. The state's savings institutions posted a median ROA of 0.74 percent as of second quarter 2003, a seven basis point decrease since the same period in 2002. The savings institutions also saw net interest income decline but experienced slight increases in noninterest income, although insufficient to offset increased expenses.
- The median net interest margin (NIM) in the state's commercial institutions declined 56 basis points to 3.73 percent as of June 30, 2003, primarily a result of lower asset yields. The thrifts experienced an 18 basis point decrease to 3.51 percent, prompted again by lower asset yields (see Chart 4).
- Insured institutions continued to utilize gains on the sale of securities to boost earnings. As of June 30, 2003, securities gains represented 22 percent of net income in the state's commercial banks and 17 percent in the savings institutions. There are still gains to be taken, at least in the short term, as total unrealized gains amounted to \$635 million as of June 30, 2003, representing about 0.67 percent of total securities available for sale in the commercial institutions and 1.75 percent in the savings institutions.
- Loan-loss provisions remained extremely low and help maintain profitability. Should the economy suffer another downturn, causing a deterioration in credit quality, profitability may be affected as insured institutions increase provisions.

### Interest-Rate Risk remains a concern for Massachusetts institutions with increased concentrations of fixed-rate, long-term assets, resulting from the recent refinancing waves.

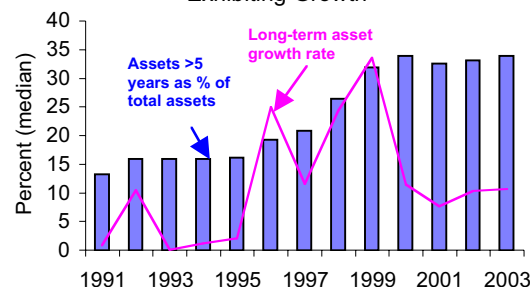
- The conventional 30-year mortgage rate declined significantly over the past several years, falling to historic lows. Refinancing activity remained strong during the first half of 2003, but started to slow in the second half of the year as mortgage interest rates began to rise. According to the Mortgage Bankers Association, on a national basis, the level of adjustable rate mortgages has increased from only about 13 percent of originations in July 2003 to almost 24 percent in November 2003. While the

Chart 4: Earnings Favorable but Still Show NIM under Pressure



Source: Bank and Thrift Call Reports. Data as of 2nd quarter.

Chart 5: Long-Term Asset Concentrations Still Exhibiting Growth



Source: Bank and Thrift Call Reports. Data as of 2nd quarter.

shift to adjustable rate mortgages may allow asset repricing, insured institutions still hold large volumes of long-term assets at low fixed rates.

- Since the late 1990s, asset maturities lengthened at many institutions, but began to moderate in the last year. The median ratio of long-term assets to total assets remained among historical highs at 34 percent (see Chart 5). If the recent rise in mortgage rates is sustained, the average life of mortgage portfolios will extend and may result in a mismatch of asset and liability repricing for some institutions. Net interest margin compression may occur, when short-term interest rates increase as liabilities reprice at a faster rate than assets.
- The extension of asset maturities is pronounced in the state, as well as New England, reflecting the large percentage of thrifts and residential lenders. Savings institutions represent 82 percent of insured institutions in Massachusetts, and residential real estate loans comprised almost 59 percent of their average loan portfolio as of June 30, 2003.

## State Profile

### Massachusetts at a Glance

General Information	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Institutions (#)	213	220	227	229	233
Total Assets (in thousands)	206,599,147	191,172,428	178,588,828	162,329,662	209,266,436
New Institutions (# < 3 years)	2	3	2	3	2
New Institutions (# < 9 years)	4	6	7	8	6
Capital	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Tier 1 Leverage (median)	9.07	9.23	9.49	9.90	9.41
Asset Quality	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Past-Due and Nonaccrual (median %)	0.71%	0.73%	0.82%	0.86%	1.22%
Past-Due and Nonaccrual > = 5%	1	4	3	5	10
ALLL/Total Loans (median %)	0.98%	0.99%	0.98%	0.98%	1.01%
ALLL/Noncurrent Loans (median multiple)	4.74	4.75	4.43	3.78	2.84
Net Loan Losses/Loans (aggregate)	0.13%	0.13%	0.07%	0.08%	0.26%
Earnings	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Unprofitable Institutions (#)	3	7	7	5	5
Percent Unprofitable	1.41%	3.18%	3.08%	2.18%	2.15%
Return on Assets (median %)	0.76	0.83	0.77	0.88	0.83
25th Percentile	0.56	0.63	0.51	0.63	0.59
Net Interest Margin (median %)	3.54%	3.77%	3.58%	3.72%	3.62%
Yield on Earning Assets (median)	5.47%	6.34%	7.32%	7.34%	7.12%
Cost of Funding Earning Assets (median)	1.96%	2.62%	3.79%	3.62%	3.46%
Provisions to Avg. Assets (median)	0.03%	0.04%	0.04%	0.04%	0.04%
Noninterest Income to Avg. Assets (median)	0.51%	0.38%	0.40%	0.37%	0.35%
Overhead to Avg. Assets (median)	2.70%	2.63%	2.66%	2.65%	2.65%
Liquidity/Sensitivity	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Loans to Deposits (median %)	72.10%	76.34%	80.26%	82.46%	77.67%
Loans to Assets (median %)	58.96%	61.74%	65.23%	66.19%	64.37%
Brokered Deposits (# of institutions)	21	14	14	15	19
Bro. Deps./Assets (median for above inst.)	1.76%	1.24%	0.72%	0.74%	0.48%
Noncore Funding to Assets (median)	16.95%	16.62%	16.16%	15.15%	12.66%
Core Funding to Assets (median)	71.83%	72.26%	71.97%	72.61%	75.03%
Bank Class	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
State Nonmember	24	26	28	28	30
National	13	13	12	13	12
State Member	2	2	2	2	2
S&L	6	6	7	7	7
Savings Bank	14	15	14	15	15
Mutually Insured	154	158	164	164	167
MSA Distribution	# of Inst.	Assets	% Inst.	% Assets	
Boston MA-NH PMSA	123	169,138,934	57.75%	81.87%	
No MSA	16	5,194,719	7.51%	2.51%	
Worcester MA-CT PMSA	15	4,262,487	7.04%	2.06%	
Springfield MA	14	7,637,239	6.57%	3.70%	
Brockton MA PMSA	10	2,142,217	4.69%	1.04%	
Lawrence MA-NH PMSA	9	3,227,188	4.23%	1.56%	
Pittsfield MA	7	2,572,789	3.29%	1.25%	
Providence-Fall River-Warwick RI-MA	6	4,328,704	2.82%	2.10%	
Lowell MA-NH PMSA	5	1,721,764	2.35%	0.83%	
Fitchburg-Leominster MA PMSA	4	725,854	1.88%	0.35%	
New Bedford MA PMSA	2	4,056,706	0.94%	1.96%	
Barnstable-Yarmouth MA	2	1,590,546	0.94%	0.77%	